



Richmond Office of the  
**CITY AUDITOR**

**OFFICIAL GOVERNMENT REPORT**



# AUDIT OF: Richmond Public Schools NUTRITION SERVICES

**Report Issued: July 14, 2014**

**Report Number: 2015-02**

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*Committed to increasing government efficiency, effectiveness  
and accountability on behalf of the Citizens of Richmond.*

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# Richmond City Council

The Voice of the People

Richmond, Virginia

## Office of the City Auditor

Umesh Dalal, CPA, CIA, CIG  
Richmond City Auditor

### Executive Summary

July 14, 2014

The Honorable Members of the Richmond Public School Board

#### **Subject: Richmond Public Schools – School Nutrition Services**

The City Auditor's Office has completed an audit of Richmond Public Schools (RPS) School Nutrition Services (SNS). SNS is a self-sustaining department that offers breakfast, lunch, and snacks for the entire student population. All foods offered are affordable and meet all established health and nutrition needs. RPS participates in the USDA (United States Department of Agriculture) Free/Reduced Lunch Program for all grade levels and receives reimbursement from the Department of Education (DOE) based on the number of meals served to students. All meals served at the schools meet the USDA Dietary Guidelines.

During FY13, SNS had \$12.4 million in actual revenues and \$12.8 million in expenses, which included about \$6 million spent on food purchases. During this period, RPS served over four million meals to the students.

#### **Salient Findings**

- The Cafeteria Managers are responsible for ordering, receiving, production tracking, and inventory. The Cafeteria Managers performed the inventory receiving process, as well as monthly inventory counts. These managers have access to inventories when other cafeteria staff are not present. The risk of food theft increases when one individual controls the entire process.
- SNS is in the process of implementing a new inventory module for the current system, which should enable RPS staff to effectively manage and monitor their inventory. As with any new system, it must be configured properly to ensure it is functioning at an optimum

level. In addition to proper initial configuration of the system, adequate staff training is critical.

- The audit identified an opportunity to serve free breakfast to all students in elementary schools and increase state reimbursement by approximately \$1.8 million.

The City Auditor's Office appreciates the cooperation of the Richmond Public Schools' staff. Please contact me for questions and comments on this report.

Sincerely,

*Umesh Dalal*

Umesh Dalal, CPA, CIA, CIG  
City Auditor

c: Dr. Dana Bedden, Superintendent  
The Richmond City Audit Committee

## COMPREHENSIVE LIST OF RECOMMENDATIONS

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## *Overview*

### *Introduction and Scope*

The City Auditor's Office has completed an audit of the Richmond Public Schools (RPS) School Nutrition Services (SNS). This audit covers the 12-month period that ended June 30, 2013. The objectives of this audit were to:

- Evaluate the efficiency and effectiveness of operations
- Determine the existence and effectiveness of internal controls
- Verify compliance with laws, regulations, and policies

The auditors conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

### *Methodology*

The auditors employed the following procedures to complete this audit:

- Observed daily operations at multiple schools;
- Observed receiving processes;
- Observed inventory processes;
- Reviewed the reimbursement reports submitted to the State; and
- Reviewed the audit of free and reduced lunch eligibility.

### *Management Responsibility*

The RPS Management is responsible for ensuring that resources are managed properly and used in compliance with laws and regulations; RPS programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

## ***Background***

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RPS provides  
breakfast, lunch, and  
snacks to the entire  
student population

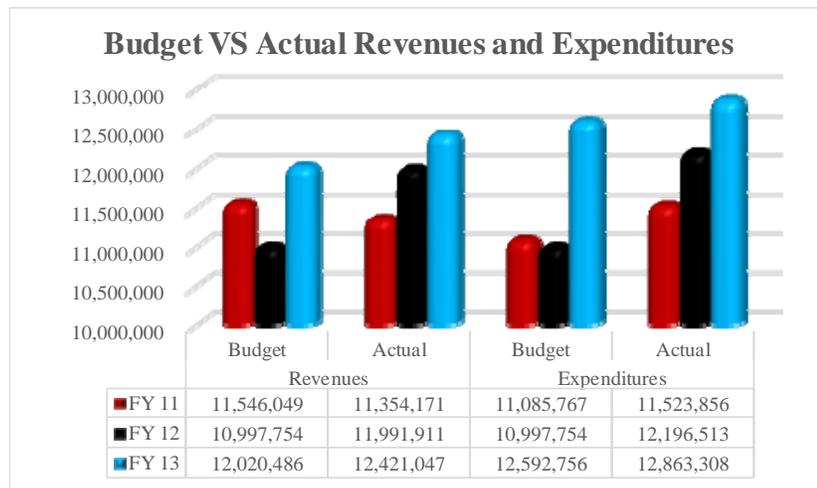
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SNS is a self-sustaining Department that offers breakfast, lunch, and snacks for the entire student population. All foods offered are affordable and meet all established health and nutrition needs. RPS participates in the USDA (United States Department of Agriculture) Free/Reduced Lunch Program for all grade levels and receive reimbursements from the Department of Education (DOE) based on the number of meals served to students. All meals served at the schools meet the USDA Dietary Guidelines.

In addition, SNS is working to obtain “Community Based Eligibility”, to ensure that low-income children in high-poverty neighborhoods have access to healthy meals at school at no charge. The Community Based Eligibility program was established through the Healthy, Hunger-Free Kids Act of 2010. The benefits of Community Eligibility include:

- Providing all students with free lunch at school
- Improving access to free school meals
- Increasing the efficiency of school nutrition services
- Increasing breakfast and lunch participation
- Eliminating the free/reduced meal application

During FY13, SNS had actual revenues of \$12.4 million, which includes meal reimbursements of \$11.15 million. The remaining revenue was from meal sales in the cafeterias. During the same period, the expenses totaled about \$12.8 million, which included about \$6 million spent on food purchases. The remaining expenses were for personnel and overhead. The following chart illustrates the budgeted and actual revenues and expenses for the last three fiscal years.



***What is Working Well?***

Through the 48 cafeteria locations, SNS served more than 4 million meals and snacks during FY13 as follows:

*Number of Meals Served*

	Paid	Reduced	Free	Overall Totals
<i>Afternoon Snack</i>	0	0	110,828	110,828
<i>Breakfast</i>	150,163	63,248	1,388,424	1,601,835
<i>Lunch</i>	217,259	109,790	2,184,619	2,511,668
<i>Total</i>	367,422	173,038	3,683,871	4,224,331

During the audit, the auditors reviewed many facets of SNS. While this report includes recommendations for improving SNS processes, the auditors did identify processes that are functioning adequately. Those include the following:

- Point of sale system utilized in all cafeterias has many functionalities that are beneficial to the Department
- Annual verification of eligibility process is adequate
- Cash handling and ordering processes are appropriate

## **Improvement Opportunities**

### ***Internal Controls***

According to Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plans, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. Based on the results and findings of the audit methodology employed, the auditors concluded that controls and procedures need to be improved for effective management of RPS School Nutrition Services. These issues are discussed throughout the report.

## **Observations and Recommendations**

### ***Inventory Management***

#### ***Proper segregation of duties and proper configuration of the new system can help in better management of food costs***

At each of the 48 cafeteria locations, Cafeteria Managers place orders for the majority of food, paper products, and chemicals utilized on a daily basis, through an online ordering system. Subsequent to entering into the on-line ordering system, there are two additional levels of management review and approval for each order prior to submission. Orders for milk and bread are submitted directly to the delivery drivers as they are highly perishable, and the need for those items can change on a daily basis.

Each respective Cafeteria Manager is responsible for ordering, receiving, production tracking, and inventory. The Cafeteria Managers performed the inventory receiving process, as well as monthly inventory counts. These managers have access to inventories when other cafeteria staff are not present.

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The duties of the Cafeteria Managers are not properly segregated

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Auditors observed Cafeteria Managers utilizing the delivery invoice to confirm receipt of goods rather than the original order documentation. The managers did not appear to verify the accuracy and usability of the products received.

Based on the above information, it appears that RPS has delegated control of food and other inventory completely to these Cafeteria Managers in the respective schools. In this situation, inventory shortages will not be detected in a timely manner. The risk of food theft increases when one individual controls the entire process.

Currently, SNS manually summarizes monthly inventory costs by schools and records daily production (food consumption). Food consumption information is used primarily for determining the size of the next order. If properly tracked in an electronic format, this data can be used to allow for thorough analysis and monitoring of inventory usage. In addition, availability of beginning inventory, purchases, consumption, and ending inventory could identify theft or otherwise missing inventories due to spoilage. With annual costs of approximately \$6 million, these risks appear to be significant.

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The new system will have several functionalities including tracking consumption of food

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SNS is in the process of implementing a new inventory module for the current system, which should enable RPS staff to more effectively manage and monitor their inventory. The MCS software is a system, which incorporates numerous modules, including:

- Free and reduced meal application tracking
- Point of sale system for all cafeterias
- Detailed financial tracking and reporting
- Meal account tracking
- Meal planning
- Automatic ordering based on meal planning
- Production (food consumption) with automatic withdrawal of individual recipe items from inventory
- Inventory tracking

The system offers complete recordkeeping to facilitate SNS' cafeteria functions. The system's reporting capabilities can assist management in identifying and monitoring pertinent information, such as ordering and consumption patterns, along with inventory levels. Management's monitoring and analysis of this information will aid in identifying

potential waste or theft of goods in a timely manner. As with any new system, it must be configured properly to ensure it is functioning at an optimum level. In addition to proper initial configuration of the system, adequate staff training is critical.

***Recommendations:***

The Superintendent needs to:

1. Require SNS to segregate the duties of ordering (although some controls do exist), receiving, and counting inventories.
2. Ensure that SNS hires professional help to configure the new system, based on RPS needs, and trains their employees to use the system effectively.
3. Require SNS to perform a thorough analysis of ordering and food consumption to manage their costs properly.
4. Require SNS to use the system data to verify the accuracy of inventory on hand and quantify shortages, if any.

***Breakfast in the  
Classroom***

***Breakfast in the Classroom***

RPS has 26 elementary schools. In accordance with the School Breakfast Program, a federally assisted meal program for schools in high poverty areas, RPS serves breakfast to all elementary school students free of charge. In some cafeterias, there is one individual preparing, serving, and accounting for the students during breakfast service. In this situation, it is difficult to ensure an accurate count of all students served.

Recently, SNS has proposed, and five schools have accepted, a method for serving breakfast to students in the classroom rather than in the cafeterias. Three of the schools have agreed and are participating in serving breakfast to all students in the classroom. Two other schools

agreed to serve breakfast to students in kindergarten and first grade in the classroom. Auditors contacted the Principals of the three elementary schools that currently serve breakfast in the classroom for all grade levels. All three Principals indicated they are pleased with the program, and noted several benefits:

- It allows for more time in the classroom each day, as the students can be engaged in activities during the meal
- Accounting for student attendance/breakfasts is more effective, as the listing of students in attendance are accounted for using barcode technology
- Student crowding and dawdling in the cafeteria is alleviated
- All students are served quickly reducing tardiness

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There is an opportunity to increase reimbursements and serve breakfast to all elementary school students

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In addition, there is an opportunity for generating significant additional reimbursements as depicted in the following table:

<i>Elementary enrollment</i>	12,324
<i>Actual breakfasts served 12-13 school year</i>	1,129,409
<i>Reimbursement</i>	\$2,089,406
<i>Potential number of breakfasts served if all served in classroom*</i>	2,107,404
<i>Potential reimbursement if breakfast served in all classrooms*</i>	\$3,898,697
<b><i>Potential increase in reimbursement</i></b>	<b>\$1,809,290</b>

*\*Note: The computation considers only 95% of all students to account for absenteeism.*

Auditors also spoke with several elementary school principals, which do not serve breakfast in the classroom. Their main concern was about the potential for spills and inefficient trash pickup in the classrooms. It appears that RPS can address these concerns by adjusting the types of

foods served for breakfast. In addition, the classrooms must have adequate waste receptacles and prompt trash removal.

***Recommendation:***

5. The Superintendent needs to expand the program to serve breakfasts in the classroom for all elementary schools.

***Policies and Procedures***

***Lack of Complete and Updated Policies and Procedures***

Upon request, SNS provided a set of documents that did not include all formal policies and procedures. The set of documents provided lacked the following elements of a formal policies and procedures manual:

- Authority by which the document was issued
- Consistent organization and structure of policies and procedures
- Effective date of policies and procedures
- Number and titling of policies and procedures
- Distribution to employees and/or electronic access

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SNS needs a formal, updated, comprehensive policies and procedures manual

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The set of documents provided by SNS included what appeared to be training documents, rather than a formal policies and procedures manual. Incomplete written policies and procedures, and failure to effectively communicate them to staff, may lead to unclear job duties and responsibilities, and inconsistent job performance by employees. Also, policies and procedures are important to ensure the continuity of operations during employee turnover.

***Recommendation:***

6. The Superintendent needs to require SNS to update policies and procedures manual and ensure its effective communication to their staff.

**MANAGEMENT RESPONSE FORM**  
**RPS School Nutrition Services - 2014-09**

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
1	The Superintendent needs to require SNS to segregate the duties of ordering (although some controls do exist), receiving, and counting inventories.	Y	There is currently a segregation of duties between the ordering of goods and services, and the receiving and counting functions. Only the central office can issue a purchase orders. Invoices, receiving documentation and purchase order are matched and then forwarded to the District's Finance Office for payment. We are implementing the full capabilities of the POS system which will allow the operations to have better controls over the counting of inventories and what the number should be from an analytical standpoint.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Director of School Nutrition Services		February 28, 2015 (all schools)
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
	Training on the system is being conducted at this time.		
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
2	The Superintendent needs to ensure that SNS hires professional help to configure the new system, based on RPS needs, and trains their employees to use the system effectively.	Y	School Nutrition Services is currently conducting training on the full implementation of the POS system.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Director of School Nutrition Services		December 31, 2014
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
3	The Superintendent needs to require SNS to perform a thorough analysis of ordering and food consumption to manage their costs properly.	Y	Until such time as the full implementation of the POS system is complete, which will allow the computation of a theoretical food cost and computation of the actual food cost, the Asst. Supt. Support Services is working with the SNS central office on the manual computation of the food costs to ensure that our actual cost are in line.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Director of School Nutrition Services		October 31, 2014
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS

**MANAGEMENT RESPONSE FORM**  
**RPS School Nutrition Services - 2014-09**

<b>4</b>	The Superintendent needs to require SNS to use the system data to verify the accuracy of inventory on hand and quantify shortages, if any.	Y	Implementation of the features in the SNS POS system. Currently we are conducting training on the system. Full implementation is projected by the end of February, 2015.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Director of School Nutrition Services		February 28, 2015
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
	Have begun training on the new features.		
<b>#</b>	<b>RECOMMENDATION</b>	<b>CONCUR Y-N</b>	<b>ACTION STEPS</b>
<b>5</b>	The Superintendent needs to expand the program to serve breakfasts in the classroom for all elementary schools.	Y	Working with four national non-profit organizations that have extensive experience in the implementation of the breakfast in the classroom program in elementary and secondary schools.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Director of School Nutrition Services		April, 2015
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
	Assessment of schools have been conducted. Currently developing a list of necessary equipment. Will then test the plan on a select number of elementary, middle and high schools. The results of the test will determine the final execution date of this plan. Our goal is to increase both our breakfast and lunch participation rates.		
<b>#</b>	<b>RECOMMENDATION</b>	<b>CONCUR Y-N</b>	<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
<b>6</b>	The Superintendent needs to require SNS to update policies and procedures manual and ensure its effective communication to their staff.	Y	With the roll out of the CEP program and assessment on how to increase the Breakfast in the Classroom project in both our elementary and secondary schools; the update will be done throughout the first few months of the school year.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Director of School Nutrition Services		April 1, 2015
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>